

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

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April 2, 2007

QUOTE OF THE WEEK

“Freedom is not a gift bestowed upon us by other men, but a right that belongs to us by the laws of God and nature.” --- Ben Franklin

AROUND THE STATE

*****Higher Fuel Prices Not a Big Blessing for State Treasury*****

I was struck by a March 26 story in the Sacramento Business Journal, “Higher gas prices help pump up state’s taxable sales.” The piece looked at recently released data for first quarter 2006 that showed that total taxable sales were up 7.9 percent from the fourth quarter of 2005. A big part of this was that higher gas prices sent fuel tax revenue soaring a whopping 18.5 percent to \$9.5 billion (out of \$129 billion in total taxable sales).

According to a March 2007 paper by the American Petroleum Institute, Californians are paying about 58 cents in tax per gallon of gasoline. This is second only to New York (60.8) and Hawaii (60.4)

http://www.api.org/statistics/fueltaxes/upload/March_2007_gasoline_and_diesel_summary_pages_2.pdf

This means that when gas prices go up, fuel revenues spike a lot because people seem to use about the same amount of gas regardless of price. In fact, during the price hike from first quarter 2005 to 2006 total gallons consumed increased by 1.7%.

But is it true that higher gas prices are good for revenues overall? Suspicious of this, I asked BoE researchers to recalculate the figures, hypothetically only allowing gasoline to rise at the rate of inflation. After doing this, BoE staff concluded that the huge increase in the price of gasoline in 2005-06 only contributed an extra \$18 million to the state. Why? Because when gas prices rise, 75% of the increase in taxable sales is simply taking away from taxable sales on other items that were never purchased. Lower and middle income individuals and households are more likely to face budget constraints, thus they cannot increase their total spending when they have to spend more for necessary driving.

Researchers in New York State came up with this theory, which makes sense to me. They use some fairly intricate math, but in general they are looking at aggregate behavior of individuals and households rather than specific products. The paper can be found here:

http://www.taxadmin.org/fta/meet/05rev_est/casey_stevens.pdf

I make this point because some may regard high gas prices as a good insofar as they help increase revenues to the state. Not only do high gas prices harm the economy, their usefulness as a celebrated revenue stream is highly exaggerated.

*****Small Business Fact Sheet*****

More and more movies these days portray the villains as “businessmen.” When people are polled about whether “businesses” should pay more taxes or be responsible for providing health care, the knee-jerk response is “absolutely.” Yet, a look at some figures recently assembled by the Assembly Republican Caucus should remind people that most “businesses” are not big corporations but small firms, owned by your neighbors, operating in your community, laboring under excessive state regulations.

The following figures come from the U.S. Small Business Administration:

- California has about 14% of the nation’s small businesses.
- Small businesses represent 92% of all businesses in the state.
- Such firm employed 53.1% of the state’s workforce in 2004.
- Small employers with fewer than 20 employees on the payroll contributed 71% of all dollars paid to employees in 2004.

According to the U.S. Census Bureau, of the 696,301 firms in California:

- 319,053 have between 1 and 4 employees
- Another 120,000 have 5 to 9 employees
- 73,958 have 10 to 19 employees
- 65,681 have 20 to 99 employees
- 12,951 have 100 to 499 employees
- 5,447 have 500 or more employees.

When you consider the huge number of small businesses, the following rankings are frightening:

- The Small Business and Entrepreneurialship Council ranked California 49th out of the 50 states for small business friendliness in 2006. That ranking was determined by high personal income, capital gains and corporate income taxes, as well as the high minimum wage, health insurance mandates, and increasing government spending.
- The Tax Foundation’s State Business Tax Climate Index ranked California 45th in the nation on corporate taxes, individual income taxes, sales tax, unemployment insurance tax, and property tax.
- The Tax Foundation puts California’s top individual income tax rate as the highest in the nation.
- The state’s 8.84% flat corporate tax rate is the highest in the western U.S., and at \$193 per capita in 2004, the 7th highest nationally.

Perhaps if the state changed the way it conducted itself, thousands and thousands of more small businesses could flourish in the state, creating tens of thousands of jobs and changing for the better the lives of innumerable families who own and operate them.

UNDER THE DOME

*****Contributions Can Support Marketplace of Expertise*****

Kevin Esterling's piece, "In Praise of Fat Cats" in an issue of the Capitol Morning Report last week made some good points. Esterling, a UC Riverside poli-sci professor claims that after studying the issue, he thinks campaign contributions to legislators improve the democratic process, especially with regard to complex issues that special interests understand but the public does not. These issues cannot be fairly dealt with in a coherent way unless legislators have staffs that can understand them. Esterling believes that contributions encourage legislators to specialize their talent toward those issues that have "third-house" or special interest support and this is a good thing:

"So while the groups may intend to further their special interests through private contributions, the effect of the overall pattern of contributions is to reward those legislators who are better informed on the issues and who tend to infuse their work with research and analysis...."

In sum, Esterling writes, "Indeed, over the long term, contributions create incentives for members to develop staff capacity and tend to improve expertise and professionalism in the Legislature. In this sense, by creating a 'market for expertise,' contributions benefit democracy."

I say there is not a direct connection between political contributions and staff capacity, but there certainly is an indirect one. If my issue as a legislator is, say, education or water, then I had better be the expert on all things education or water. What better way to do that than to hire education or water experts to my staff to make me look good. My choosing to be the expert on that issue will attract contributions from interest groups that agree with me or want to see me successful, and I agree with Esterling this is good for democracy.

I do not have a link to his work, but you can contact Esterling here:

<http://politicalscience.ucr.edu/people/faculty/esterling/>

ISSUE FOCUS

*****Documentary on the Corruption of Universities*****

Evan Coyne Maloney is a talented young documentary film maker. His low-budget, no-frills work has gotten a lot of attention over the last few years in conservative circles. One work of his I particularly enjoyed was of him interviewing anti-war protesters in which he asked the protesters to guess the author of a quote about Saddam Hussein's WMD programs. The actual speaker of the quote was Al Gore, which made for some amusing reactions from those being

interviewed as they guessed Bush instead. It's Maloney's willingness to engage far left people along with his self-effacing style and fairness that make him stand apart.

His latest film is wonderful and disturbing at the same time. It is called "Indoctrinate U" and focuses on the intellectual atmosphere on campuses across the nation. This film is long overdue. For way too long, people have been tolerant in letting a certain point of view dominate America's campuses. Conservative-leaning students have known for last 30 years – at least – that in order to succeed, especially in the liberal arts, they have to hide who they really are because it is well known that professors punish conservative students for not towing their line. Young conservatives are given the friendly advice to "just get through it" or "tell them what they want to hear" and then upon graduation they are only then allowed to be their real selves. That is shameful and it needs to stop.

What I really like about Maloney's approach is he is not shilling for the Republican Party. That is not the issue. Rather, Maloney just wants universities to go back to being a safe place for people to voice ideas without fearing damage to their future prospects in life for doing so. That is the correct approach. What is also wonderful about the film is that Maloney does not just cherry-pick disgruntled conservative students, he interviews many professors as well. Some of these are self described architects of the political correct atmosphere on campus and they agree that things have gone too far toward a certain narrow vision that is not healthy for the schools, nor the nation.

Check out this site for a showing of this movie near you. If you have kids nearing college age, this movie is an eye-opener.

<http://www.indoctrinate-u.com/cgi-local/welcome.cgi>

MISCELLANY

A Good Read

"Deliver Us From Evil" by Sean Hannity is an important reminder that not only can history repeat itself but that evil exists and desires to harm us. Tracing a direct line from Adolf Hitler and Joseph Stalin through Saddam Hussein and Osama bin Laden, Hannity reminds us of the courage and moral clarity of great leaders like Franklin D. Roosevelt, Winston Churchill and Ronald Reagan. He demonstrates how the disgraceful history of appeasement has reached forward from the days of Neville Chamberlain to present day liberal apologists who try to sugarcoat Saddam Hussein and Osama bin Laden.

Hannity writes about the persistence of evil, saying "Whether it takes the fiendishly organized form of Nazism, communism, or other forms of despotism – or erupts around the world in the loose networks we call terrorism – one thing is clear: Evil will thrive, unless it is confronted and defeated." He lays out the compelling case why it is better for us to go get the enemy where they are instead of waiting for them to come and get us again. Had we have done this with Hitler, WW II may have been avoided – certainly there would not have been a holocaust (a horror of

immense proportions and human indignity, suffering and death that is denied to this day by the current president of Iran).

Hannity references Reagan's moral clarity--comparable nowadays to Bush's resolve in the War on Terror--which was the determining factor in the collapse of the USSR. Remember, it was Reagan who branded the Soviet Union as the "Evil Empire," contrasting American's renewed self-confidence and hope after Carter's term of cataclysmic losses and relapses. Reagan, too, was strongly criticized for his moral resolve by our liberal friends in Congress and the media establishment, but history has proven him right. I recommend Hannity's book, especially as more and more media coverage focuses on the challenges of the war in Iraq instead of on the greater moral issues at stake in the war on terror.

BOE AND LEGISLATIVE DATES

April 2, 2007 --- Passover 2007 (5767) begins just after sundown.

April 8, 2007 --- Easter.

April 9, 2007 --- Legislature reconvenes from Spring Recess. (J.R. 51(a)(2)).

April 10, 2007 --- Passover ends just after sundown.

April 24-25, 2007 --- Board of Equalization meets in Sacramento.

April 27, 2007 --- Last day for policy committees to hear and report fiscal bills for referral to fiscal committees (J.R. 61(a)(2)).

May 28, 2007 --- Memorial Day observed

May 31, 2007 --- Board of Equalization meets in Sacramento.

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June 1, 2007 --- Board of Equalization meets in Sacramento.

June 8, 2007 --- Last day to pass bills out of house of origin (J.R. 61(a)(8)).

June 15, 2007 --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

June 19-21, 2007 --- Board of Equalization meets in Culver City.

NOTABLE DATES/ HISTORY

April 2, 1917 --- President Woodrow Wilson asked Congress to enter World War I, saying, "The world must be made safe for democracy."

April 3, 1860 --- The legendary Pony Express began mail service between Saint Joseph, Missouri, and Sacramento, California.

April 3, 1996 --- Theodore Kaczynski, a.k.a. the Unabomber, was arrested on charges that he made bombs that killed three and wounded many others over 17 years.

April 4, 1818 --- Congress approved the U.S. flag with 13 red and white stripes and 20 stars along with the plan to add a star for each new state.

April 4, 1850 --- Los Angeles was incorporated as a city.

April 4, 1968 --- The Rev. Martin Luther King, Jr., was assassinated in Memphis, Tennessee.

April 5, 1614 --- Pocahontas, daughter of Native American chief Powahatan, married American colonist John Rolfe in Jamestown, Virginia, helping secure peace between the natives and the English colonists.

April 5, 1976 --- Howard Hughes died in Houston, Texas.

April 6, 1896 --- The first modern Olympic Games were held in Athens, Greece.

April 6, 1917 --- The U.S. declared war on Germany and entered World War I.

April 7, 1926 --- A forest fire in San Luis Obispo, CA burned 900 acres and kills two people.

April 8, 1991 --- Oakland A's Stadium became the first outdoor arena to ban smoking.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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